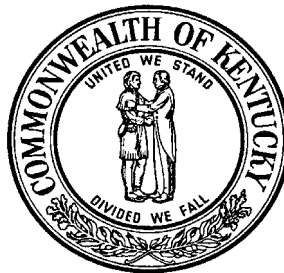


**REPORT OF THE AUDIT OF THE  
FORMER PERRY COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**July 28, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER PERRY COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**July 28, 2006**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for former Perry County Sheriff as of July 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$8,407,540 for the districts for 2005 taxes, retaining commissions of \$249,189 to operate the Sheriff's office. The former Sheriff distributed taxes of \$8,007,699 to the districts for 2005 Taxes. Taxes of \$131,610 are due to the districts from the former Sheriff.

**Report Comments:**

- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account
- The Former Sheriff Should Settle 2005 Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- Franchise Tax Collections Should Have Been Distributed By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account
- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2004, 2003, And 2002 Incoming Taxes
- The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others
- The Former Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$582,906 And Enter Into A Written Agreement To Protect Deposits
- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties
- Daily Receipt Listings For 2004 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- Daily Receipt Listings For 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

**Deposits:**

The former Sheriff's deposits as of January 5, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$582,906



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the former Perry County Sheriff's Settlement - 2005 Taxes as of July 28, 2006. This tax settlement is the responsibility of the former Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Perry County Sheriff's taxes charged, credited, and paid as of July 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 4, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable Dennis P. Wooton, Former Perry County Sheriff

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account
- The Former Sheriff Should Settle 2005 Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- Franchise Tax Collections Should Have Been Distributed By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account
- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2004, 2003, And 2002 Incoming Taxes
- The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others
- The Former Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$582,906 And Enter Into A Written Agreement To Protect Deposits
- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
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- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties
- Daily Receipt Listings For 2004 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- Daily Receipt Listings For 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,



Crit Luallen

Auditor of Public Accounts

June 4, 2008



PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

July 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 635,024	\$ 933,053	\$ 2,461,312	\$ 823,645
Tangible Personal Property	210,472	467,158	919,221	797,451
Intangible Personal Property				141,631
Fire Protection	4,498			
Increases Through Exonerations	167	373	732	233
Franchise Taxes:				
Billed	102,185	210,566	434,442	
Additional Billings	8,653	12,679	32,469	11,223
Oil Property Taxes	5,768	8,452	21,587	7,481
Gas Property Taxes	89,765	131,536	335,950	116,427
Penalties	8,299	12,495	32,007	11,901
Adjusted to Sheriff's Receipt	709	1,245	3,533	1,043
Gross Chargeable to Sheriff	<u>1,065,540</u>	<u>1,777,557</u>	<u>4,241,253</u>	<u>1,911,035</u>
<u>Credits</u>				
Exonerations	11,632	17,439	44,603	16,132
Discounts	13,510	22,423	53,796	29,137
Delinquents:				
Real Estate	43,892	63,881	167,671	56,402
Tangible Personal Property	2,252	4,959	9,820	7,706
Intangible Personal Property				1,215
Franchise Taxes:				
Delinquent	70	142	285	
Uncollected	2,789	5,989	12,100	
Total Credits	<u>74,145</u>	<u>114,833</u>	<u>288,275</u>	<u>110,592</u>
Taxes Collected	\$ 991,395	\$ 1,662,724	\$ 3,952,978	\$ 1,800,443
Less: Commissions (a)	<u>42,422</u>	<u>70,666</u>	<u>59,295</u>	<u>76,806</u>
Taxes Due	948,973	1,592,058	3,893,683	1,723,637
Taxes Paid	927,485	1,552,514	3,806,213	1,721,487
Refunds (Current and Prior Year)	<u>2,519</u>	<u>4,346</u>	<u>10,027</u>	<u>2,150</u>
Due Districts				
as of Completion of Fieldwork	<u>\$ 18,969</u>	<u>\$ 35,198</u>	<u>\$ 77,443</u>	<u>\$ 0</u>
		(b)	(c)	

(a), (b), and (c) - See Following Page

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
July 28, 2006  
(Continued)

(a) Commissions:	
10% on	\$ 10,000
4.25% on	\$ 4,444,562
1.5% on	\$ 3,952,978
(b) Special Taxing Districts:	
Library District	\$ 23,087
Health District	5,896
Extension District	5,530
Soil Conservation	<u>685</u>
Due Districts	<u>\$ 35,198</u>
(c) School Taxing Districts:	
Common School	\$ 69,781
Graded School	<u>7,662</u>
Due Districts	<u>\$ 77,443</u>

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT

July 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the former Sheriff securing the former Sheriff's interest in the surety bond provided as collateral.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT  
July 28, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On January 5, 2006, \$582,906 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$582,906

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 2, 2005 through July 28, 2006.

Note 4. Interest Income

The former Perry County Sheriff earned \$1,956 as interest income on 2005 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Perry County Sheriff collected \$50,580 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs And Fees

The former Perry County Sheriff collected \$2,460 of advertising costs and \$3,075 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute and the advertising fees were used to operate the former Sheriff's office.

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
July 28, 2006

Assets

Cash in Bank (All Tax Accounts)	\$ 108,403
Deposits in Transit	25,074
Receivables Collected After Sale Date - 2005 Taxes	<u>1,960</u>
Total Assets	<u>135,437</u>

Liabilities

## Paid Obligations-

Liabilities Paid After Sale Date -  
2005 Taxes

\$ 135,297

Total Paid Obligations 135,297

## Unpaid Obligations-

## Other Taxing Districts-

County	18,969
Common School	69,781
Graded School	7,662
Library	23,087
Health	5,896
Extension Service	5,530
Soil Conservation	685

Tax Commissions Due Sheriff's Fee Account 3,642

## Refunds Due For Overpayments Collected In Error -

County	635
Library	625
Health	120
Extension Service	<u>166</u>

Total Unpaid Obligations 136,798

Total Liabilities 272,095

Total Fund Deficit Balance As Of July 28, 2006 \$ (136,658)

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## COMMENTS AND RECOMMENDATIONS





PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of July 28, 2006

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Tax Account

Based upon the available records, the former Sheriff had a deficit of \$136,658 in his official 2005 tax bank account as of July 28, 2006. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$136,658 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

*Former Sheriff's Response: On June 5, 2008, I made request of the Perry County Attorney to contact the bonding company.*

2. The Former Sheriff Should Settle 2005 Taxes

Based on our audit of the 2005 taxes as of July 28, 2006, the former Sheriff owes the following additional amounts to the taxing districts:

<u>Taxing District</u>	<u>Amount</u>
County	\$ 18,969
Common School	69,781
Graded School	7,662
Library	23,087
Health	5,896
Extension Service	5,530
Soil Conservation	<u>685</u>
 Total Due Taxing Districts	 <u><u>\$ 131,610</u></u>

We recommend that the former Sheriff settle 2005 taxes by paying additional amounts due to taxing districts.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19).*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

3. The Former Sheriff Should Distribute Additional Amounts Due Others

Based upon the results of our test procedures relating to 2005 Taxes, the following additional amounts are due others:

<u>Others Owed</u>	<u>Amount</u>
Fee Account - Additional Commissions Due	\$ 3,642
Refunds Due For Overpayments Collected In Error -	
County	635
Library	625
Health	120
Extension Service	166
	<hr/>
Total Due Others	<u>\$ 5,188</u>

We recommend the former Sheriff settle all amounts due in order to satisfy his 2005 tax obligations.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

4. An Accurate And Complete Receipts Ledger Was Not Maintained

All tax collections were not recorded and were not properly classified on the former Sheriff's receipts ledger. KRS 134.160 required the former Sheriff to "keep an accurate account of all moneys received by him, showing the amount, the time when and the person from whom received, and on what account." We found five discrepancies where receipt ledger entries totaling \$44,077 incorrectly identified transactions as property tax collections rather than franchise collections received from public service companies. In addition, we also noted eight other discrepancies where franchise collections received from public service companies totaling \$94,411 was not recorded on the former Sheriff's receipts ledger. The former Sheriff should have taken steps to ensure all collections and their appropriate sources were accurately recorded and correctly identified on the receipts ledger.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

5. Franchise Tax Collections Should Have Been Distributed By The Tenth Of Each Month

Franchise collections were not accurately reported during the 2005 tax collection period. KRS 134.300 requires the Sheriff, by the tenth of each month, to report and distribute the amount of taxes he has collected during the preceding month. Franchise tax collections totaling \$176,340 were never reported and distributed to the taxing districts. Franchise reporting errors on the June 2006 and July 2006 report included distributions of \$359 and \$37,767, respectively, to the taxing districts for franchise tax bills that were not collected. As reflected on our Sheriff's Settlement – 2005 taxes, a significant net amount of franchise taxes are due to taxing districts as the result of reporting errors. Therefore, the former Sheriff should have complied with KRS 134.300 that required the reporting and distribution of each month's collections by the tenth of the following month.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

6. Tax Collections Were Not Always Deposited Timely

In some instances franchise payments received from public service companies were held and not deposited for as long as one hundred seven (107) working days. In addition, we noted a year end deposit in transit of \$25,074 did not clear the bank for thirty (30) working days. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis. Therefore, the former Sheriff should have deposited into his official tax account each day, whether in the form of cash or check, all monies collected by him.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

7. The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited

During our audit, we noted that personal checks and/or third party checks were cashed from tax collections of the former Sheriff's office. When this occurred, the receipts deposited did not agree with the original form of cash and checks received by the former Sheriff's office for tax collections. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements that include depositing receipts intact on a daily basis and reconciling deposits to batched receipts. The former Sheriff should have deposited receipts intact (i.e., in the same form as they were collected) as required by the State Local Finance Officer. Furthermore, the practice of cashing checks whether personal or third party should have been prohibited as such unrelated receipt transactions distorts the cash audit trail.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

8. The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account

A previous audit report dated December 27, 2005 on the former Sheriff's Settlement - 2004 Taxes had reported a deficit in the former Sheriff's 2004 tax account of \$1,855 as of July 29, 2005. However, as a result of additional information auditors obtained during the audit of the former Sheriff's Settlement - 2005 Taxes, additional franchise tax audit procedures were performed on the former Sheriff's Settlement - 2004 Taxes. These additional procedures revealed the former Sheriff had additional undeposited tax receipts of \$160,872 in his official bank account for 2004 taxes as of July 29, 2005, resulting in a total deficit of \$162,727. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$162,727 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. On December 28, 2005, a former employee made a personal deposit of \$1,855 in the former Sheriff's official tax account for 2004 taxes, leaving a remaining deficit of \$160,872 in his official 2004 tax account. We recommend the former Sheriff take appropriate action to eliminate the remaining deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

9. The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account

A previous audit report dated January 31, 2005 on the former Sheriff's Settlement - 2003 Taxes had included a note disclosure reporting the former Sheriff had \$48,889 in unrefundable duplicate payments and unexplained receipts as of August 31, 2004. However, as a result of additional information auditors obtained during the audit of the former Sheriff's Settlement - 2005 Taxes, additional franchise tax audit procedures were performed on the former Sheriff's Settlement - 2003 Taxes. These additional procedures revealed the former Sheriff had undeposited tax receipts of \$195,985 in his official bank account for 2003 taxes, resulting in a deficit of \$195,985 as of August 31, 2004. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$195,985 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

10. The Former Sheriff Had A Deficit of \$44,379 In His Official 2002 Incoming Tax Account

As reported by auditors on November 21, 2003, the former Sheriff had an unexplained surplus balance of \$96 in the official tax account for 2002 taxes. However, as a result of additional information auditors obtained during the audit of the former Sheriff's Settlement - 2005 Taxes, additional franchise tax audit procedures were performed on the former Sheriff's Settlement - 2002 Incoming Taxes. These additional procedures revealed the former Sheriff had undeposited tax receipts of \$44,379 in his official bank account for 2002 incoming taxes, resulting in a deficit of \$44,379 as of August 31, 2003. This deficit appears to be the result of a scheme to manipulate the accounting records by a former employee of the Sheriff's office to conceal the apparent theft of cash payments made by individuals for property taxes. The missing cash of \$44,379 was replaced by corporate franchise tax payments made by check that were never included on a monthly franchise report for distribution to taxing districts. We recommend the former Sheriff take appropriate action to eliminate this deficit by contacting the county attorney to notify the bonding company, and by working with law enforcement officials regarding an investigation.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

11. The Former Sheriff Should Settle Prior Year 2004, 2003 and 2002 Incoming Taxes

As the result of additional franchise procedures performed and previously reported unsettled tax obligations on the 2004, 2003 and 2002 incoming tax collection periods, the former Sheriff owes the following additional amounts to the taxing districts:

Taxing District	2004 Tax Year	2003 Tax Year	2002 Incoming Tax Year
Kentucky State Treasurer	\$	\$ 120	\$
County	22,995	39,111	8,078
Common School	38,271	94,625	27,184
Graded School	51,435	52,174	1,118
Library	25,503	34,730	5,776
Health	6,243	9,880	1,812
Extension Service	6,631	9,577	1,205
Soil Conservation	22		113
Total Due Taxing Districts	<u>\$ 151,100</u>	<u>\$ 240,217</u>	<u>\$ 45,286</u>

We recommend the former Sheriff settle prior years' tax obligations for the 2004, 2003, and 2002 incoming tax collection periods by paying additional amounts due to taxing districts.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

12. The Former Sheriff Should Distribute Prior Years Additional Amounts Due Others

As the result of additional franchise procedures performed on the 2004, 2003, and 2002 incoming tax collection periods, the former Sheriff owes the following additional amounts due others.

<u>Others Owed</u>	<u>2004 Tax Year</u>	<u>2003 Tax Year</u>	<u>2002 Incoming Tax Year</u>
Fee Account - Additional Commissions Due	\$ 4,037	\$ 4,171	\$ 635
Refunds Due For Overpayments Collected In Error -			
Library		287	
Health		17	
Graded School	370		274
Soil Conservation	165		
Fee Account - Transfer Error	3,175		
Interest Due Sheriff's Fee Account		389	
Interest Due Perry County School		207	
Interest Due Hazard Independent School		75	
2004 Franchise Taxpayer	1,998		
2004 Property Taxpayer	27		
2003 Property Taxpayer		142	
Total Due Others	<u>\$ 9,772</u>	<u>\$ 5,288</u>	<u>\$ 909</u>

We recommend that the former Sheriff pay the additional amounts due others in order to satisfy all liabilities of the 2004, 2003, and 2002 incoming tax accounts.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
 DENNIS P. WOOTON, FORMER SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 As of July 28, 2006  
 (Continued)

STATE LAWS AND REGULATIONS (CONTINUED):

13. The Former Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$582,906 And Enter Into A Written Agreement To Protect Deposits

On January 5, 2006, \$582,906 of the former Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. Although the former Sheriff properly entered into a written agreement with the depository institution to secure the former Sheriff's interest in the collateral pledged or provided by the depository institution, the depository institution did not have a written agreement securing the Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. Therefore, the former Sheriff should have entered into a separate written agreement with the depository institution to secure the former Sheriff's interest in the surety bond provided as collateral.

*Former Sheriff's Response: Due to receiving taxes late to collect, I had a longer than anticipated amount totals on deposit in the bank. I will suggest to the incoming administration to discuss with the bank to pledge or provide collateral in an amount to secure deposits of funds in all accounts at all times.*

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES:

14. Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

Based upon the available records, the former Sheriff had a deficit of \$136,658 in his official 2005 tax bank account as of July 28, 2006. This deficit was the result of unreported franchise payments received in the form of checks that were falsified and/or manipulated on the former Sheriff's records and reports and were then used to replace undeposited cash. Examples of how this deficit went undetected are as follows:

- An entry on a receipt listing dated December 9, 2005 for \$7,596 was falsified by recording the payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of a franchise payment from a public service company. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

14. Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities (Continued)

- Receipt listings dated December 11, 2005 and December 29, 2005 failed to include franchise payments of \$314 and \$12,777, respectively, from public service companies that were included in deposit details obtained from the bank. Further testing determined these franchise payments were never included on a monthly report for distribution to taxing districts.
- An entry on a receipt listing dated May 19, 2006 for \$10,050 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of seven different franchise payments from public service companies. Further testing determined these franchise payments were never included on a monthly report for distribution to taxing districts.
- An entry on a receipt listing dated June 5, 2006 for \$84,361 was falsified by recording the payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of a franchise payment from a public service company. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.
- A receipt listing dated June 21, 2006 failed to include a franchise payment of \$1,053 from a public service company that was included in a deposit detail obtained from the bank. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.
- An entry on a receipt listing dated June 28, 2006 for \$8,082 was falsified by recording two payments as being from individual taxpayers and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of one franchise payment from a public service company. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.
- A receipt listing dated July 5, 2006 failed to include a franchise payment of \$27,033 from a public service company that was included in a deposit detail obtained from the bank. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.



PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

14. Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities (Continued)

- An itemized listing of receipts was not prepared for a deposit dated July 28, 2006 totaling \$25,074. Deposit detail obtained from the bank revealed this amount consisted of one franchise payment from a public service company. Further testing determined this franchise payment was never included on a monthly report for distribution to taxing districts.
- Fifteen (15) entries on receipt listings dated between April 25, 2006 and July 14, 2006 were falsified by recording lump sum amounts totaling \$20,650 as being from the same individual, when in fact, deposit detail obtained from the bank revealed these amounts were never deposited into the official tax account. Additionally, the receipt listing dated May 1, 2006 contained a recording for currency in the amount of \$1,949, when in fact, deposit detail obtained from bank revealed that no currency was included as part of this deposit. Further testing determined that these patterns of irregularities were not related to official tax collections.

A former employee prepared the receipt listings, deposit tickets, and daily checkouts, as well as maintained the receipts ledger and made distributions to the taxing districts. As a result of this lack of adequate segregation of duties in the area of cash receipts, manipulation and falsification of receipt listings, deposits, and monthly reports occurred and was not detected. The former Sheriff should have segregated cash receipt duties and/or implemented appropriate compensating controls to oversee and monitor these activities.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

15. The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process

We identified internal control weaknesses in the former Sheriff's operations relating to the segregation of duties over tax disbursements and check signing procedures. During our review of disbursement procedures, it came to our attention that with little or no oversight the former Sheriff allowed a former employee to sign his name to checks issued from the tax account. This person was also responsible for preparing tax distribution checks and maintaining the disbursement ledger, as well as other key duties relating to the receipt function. Allowing one individual to be responsible for all phases of transactions significantly increased the risk that incorrect payments and other errors or irregularities could occur and not be detected in a timely manner. To adequately control checks issued from the tax account, the former Sheriff should have segregated the duties over cash disbursements and should not have allowed this employee to sign his name to checks for which he was the authorized signatory.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

16. The Former Sheriff Should Have Improved Recordkeeping Procedures

Based upon the review of former Sheriff's records, the following recordkeeping areas were noted as needing improvement. To allow for better accountability of tax receipts, the former Sheriff should have improved the following.

- Batched tax bills were not grouped and filed along with their corresponding daily check out sheet. Because of this, a comparison between daily batched tax bills and daily deposits could not always be performed. Tax bills should have been maintained in their original batched form to allow for an audit trail of all daily tax collections.
- During the 2005 tax collection period, there were numerous instances where the cash and/or check totals recorded on the deposit slip did not agree with the total cash and checks presented to the bank for deposit. The deposit slip preparation process should have included steps to verify the accuracy of information included on deposit slips and that the deposit slip agreed with the daily check out sheet.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

17. The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties

The internal control structure lacked an adequate segregation of duties because one individual performed almost all accounting functions of the former Sheriff's office. While it may not have been practical to segregate duties because of limited resources, the former Sheriff could have established compensating controls to address the lack of adequate segregation of duties. Such compensating controls could have included the former Sheriff periodically reviewing and verifying the work in question. To reduce the risk that errors or irregularities could occur and not be detected in a timely manner, the former Sheriff could have provided the oversight necessary to ensure adequate controls were appropriately designed and operating effectively over the cash collections, reconciliations, reporting, and distribution processes.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

18. Daily Receipt Listings For 2004 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

Based upon the available records, the former Sheriff had a deficit of \$162,727 in his official 2004 tax bank account as of July 29, 2005. This deficit was the result of unreported franchise payments received in the form of checks that were falsified and/or manipulated on the former Sheriff's records and reports and were then used to replace undeposited cash. Examples of how this deficit went undetected are as follows:

- An entry on a receipt listing dated December 6, 2004 for \$2,893 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of four different franchise payments from public service companies. Further testing determined these franchise payments were never included on a monthly report for distribution to taxing districts.
- Entries on receipt listings dated December 30, 2004 for \$11,965 and \$20,204 were recorded at the proper amounts on the receipts listing, but were included with regular tax collections, when in fact, deposit detail obtained from the bank revealed the listings were franchise payments from two public service companies. Further testing determined these franchise payments were not included on a monthly report for distribution to taxing districts until June 2005, i.e. six months late.
- An itemized listing of receipts was not prepared for a deposit dated March 14, 2005 totaling \$240,278. Based on the deposit detail obtained from the bank, auditors determined a franchise payment of \$234,280 from a public service company was included in that deposit, as well as regular tax payments of \$4,508. Auditors were unable to determine from the deposit detail and the lack of an itemized receipt listing whether a \$20 check and two third-party checks totaling \$1,470 were cashed by the former Sheriff's office or were accepted as tax payments. Further testing determined the franchise payment of \$234,280 was never included on a monthly report for distribution to taxing districts.
- A receipt listing dated April 8, 2005 failed to include a franchise payment of \$15,511 from a public service company that was included in deposit detail obtained from the bank. Further testing determined the franchise payment was not included on a monthly report for distribution to taxing districts until June 2005, i.e. two months late.

A former employee prepared the receipt listings, deposit tickets, and daily checkouts, as well as maintained the receipts ledger and made distributions to the taxing districts. As a result of this lack of adequate segregation of duties in the area of cash receipts, manipulation and falsification of receipt listings, deposits, and monthly reports occurred and was not detected. The former Sheriff should have segregated cash receipt duties and/or implemented appropriate compensating controls to oversee and monitor these activities.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

19. Daily Receipt Listings For 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities

Based upon the available records, the former Sheriff had a deficit of \$195,985 in his official 2003 tax bank account as of August 31, 2004. This deficit was the result of unreported franchise payments received in the form of checks that were falsified and/or manipulated on the former Sheriff's records and reports and were then used to replace undeposited cash. Examples of how this deficit went undetected are as follows:

- An entry on a receipt listing dated November 10, 2003 for \$15,186 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of two franchise payments from a public service companies totaling \$6,918 and twenty-five (25) individual property tax payments for the remaining balance. Further testing determined this franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. six months late.
- An entry on receipt listing dated November 14, 2003 for \$236 was recorded at the proper amounts on the receipts listing, but was included with regular tax collections, when in fact, deposit detail obtained from the bank revealed the listing was a franchise payment from a public service company. Further testing determined this franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. six months late.
- An entry on a receipt listing dated November 30, 2003 for \$20,447 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of a franchise payment from a public service company. Further testing determined this franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. six months late.
- An entry on a receipt listing dated November 30, 2003 for \$2,265 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of one franchise payment from a public service company totaling \$2,220 and one payment totaling \$45 received from a regular property taxpayer. Further testing determined the \$2,220 franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. six months late.
- An entry on a receipt listing dated November 30, 2003 for \$8,071 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of two different franchise payments from public service companies totaling \$7,179 and one payment for a regular tax payment totaling \$892. Further testing determined the franchise payments were not included on a monthly report for distribution to taxing districts until April 2004, i.e. six months late.

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESSES  
(CONTINUED):

19. Daily Receipt Listings For 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities (Continued)

- An entry on a receipt listing dated February 3, 2004 for \$394 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of one franchise payment from a public service company totaling \$335 and one payment totaling \$59 received from an individual property taxpayer. Further testing determined the \$335 franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. two months late.
- An entry on a receipt listing dated February 17, 2004 for \$59,408 was falsified by recording one payment as being from an individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of a franchise payment from a public service company. Further testing determined the franchise payment was not included on a monthly report for distribution to taxing districts until April 2004, i.e. two months late.
- A receipt listing dated April 9, 2004 included four entries for \$7,117 each were falsified by recording the four payments as being from the same individual taxpayer and included with regular tax collections, when in fact, deposit detail obtained from the bank revealed this amount consisted of one payment totaling \$28,468 received for unmined coal tax collections.
- Two receipt listings dated April 23, 2004 for \$52,996 and \$182,464 were falsified by recording payments as being from fifty-one (51) different taxpayers, when in fact, deposit detail obtained from the bank revealed these amounts consisted of one franchise payment totaling \$259,030 from a public service company. Further testing determined the franchise payment of \$259,030 was never included on a monthly report for distribution to taxing districts.

A former employee prepared the receipt listings, deposit tickets, and daily checkouts, as well as maintained the receipts ledger and made distributions to the taxing districts. As a result of this lack of adequate segregation of duties in the area of cash receipts, manipulation and falsification of receipt listings, deposits, and monthly reports occurred and was not detected. The former Sheriff should have segregated cash receipt duties and/or implemented appropriate compensating controls to oversee and monitor these activities.

*Former Sheriff's Response: See attached letter 6-16-08 (following Comment #19)*

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006  
(Continued)

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties - Repeated with revisions

The Sheriff Should Eliminate The Deficit Of \$1,855 In The Tax Account - Repeated with revisions

PERRY COUNTY  
DENNIS P. WOOTON, FORMER SHERIFF  
FORMER SHERIFF'S RESPONSE TO COMMENTS AND RECOMMENDATIONS  
As of July 28, 2006

June 16, 2008

Auditor of Public Accounts  
105 Sea Hero Road, Suite #2  
Frankfort, Kentucky 40601-5404  
Attention:

Dear

On Thursday June 4, 2008 I met with the Kentucky State Auditors Office to learn of a very large deficit in Franchise Tax collection during my 4 year term of office as Perry County Sheriff. The deficit was, in words of the Auditors Office, "due to a very complex scam of a type they have not detected before and has taken the Auditors Office 18 months to discover."

Clearly my response was that of shock and complete surprise as during my term as Perry County Sheriff we were audited yearly by a local CPA office and once a year by Auditors of the State Auditors Office or Auditors under contract to the Kentucky State Auditors Office. Not one of these seven audits gave any indication that anyone in the Perry County Sheriffs Office had falsified and/or manipulate records. The audits by both the local auditor and the State Auditor's Office in 2002, 2003, 2004, and 2005 failed to show a deficit or the need for any changes regarding the collection and accounting of Franchise Taxes. In addition, my office submitted a tax report to the Kentucky Revenue Cabinet each month. No alarm was sounded by any external control.

Any falsified and/or manipulated records in the collection of Franchise taxes would have resulted in less operation funds for the Sheriffs Office as well as other local taxing entities. Again, no alarms were sounded from any sources.

Due to privacy aspects of the tax audits, accounting records, and time limitations, I am unable to address and respond to specific allegations in the audit. I have requested the Kentucky State Auditors Office to proceed immediately to turn their finding over to the State Attorney Generals Office or the Kentucky State Police for a complete and aggressive investigation into any and all aspects of Franchise Taxes during my term as Perry County Sheriff.

Sincerely Yours,



Dennis P. Wooton  
Former Perry County Sheriff

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Denny Ray Noble, Perry County Judge/Executive  
Honorable Dennis P. Wooton, Former Perry County Sheriff  
Honorable John Leslie Burgett, Perry County Sheriff  
Members of the Perry County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Perry County Sheriff's Settlement - 2005 Taxes as of July 28, 2006, and have issued our report thereon dated June 4, 2008. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the former Perry County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- Daily Receipt Listings For Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- The Former Sheriff Should Have Controlled The Use Of His Signature In The Check Signing Process
- The Former Sheriff Should Have Improved Recordkeeping Procedures
- The Former Sheriff Should Have Implemented Compensating Internal Controls To Offset The Lack Of Adequate Segregation Of Duties
- Daily Receipt Listings For 2004 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities
- Daily Receipt Listings For 2003 Tax Collections Were Falsified And/Or Manipulated As The Result Of Inadequate Internal Controls Over Cash Receipt Activities



Report On Internal Control Over Financial Reporting And On  
Compliance and Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Perry County Sheriff's Settlement -2005 Taxes as of July 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Had A Deficit Of \$136,658 In His Official 2005 Bank Account
- The Former Sheriff Should Settle 2005 Taxes
- The Former Sheriff Should Distribute Additional Amounts Due Others
- An Accurate And Complete Receipts Ledger Was Not Maintained
- Franchise Tax Collections Should Have Been Distributed By The Tenth Of Each Month
- Tax Collections Were Not Always Deposited Timely
- The Practice Of Cashing Checks From Office Funds Should Have Been Prohibited
- The Former Sheriff Had A Deficit Of \$162,727 In His Official 2004 Tax Account
- The Former Sheriff Had A Deficit Of \$195,985 In His Official 2003 Tax Account
- The Former Sheriff Had A Deficit Of \$44,379 In His Official 2002 Incoming Tax Account
- The Former Sheriff Should Settle Prior Year 2004, 2003, And 2002 Taxes
- The Former Sheriff Should Distribute Prior Year Additional Amounts Due Others
- The Former Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$582,906 And Enter Into A Written Agreement To Protect Deposits

Report On Internal Control Over Financial Reporting And On  
Compliance and Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

June 4, 2008